

## DALMIA CEMENT

# Business focus, expansion push may pay off

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DALMIA Cement (Bharat) had earlier announced plans to demerge its cement, thermal power and certain other businesses into Dalmia Bharat Enterprises (DBE), in a bid to create entities that are more sharply focused. The original Dalmia Cement (Bharat) would house the sugar business with crushing capacity of 22,500 tonne per day, coupled with distillery and co-generation business.

Dalmia Bharat Enterprises is a wholly-owned subsidiary of Dalmia Cement (Bharat). Further, as per the restructuring announced, the cement and thermal power undertaking will be demerged into two wholly-owned subsidiaries, namely Avniya Properties and DCB Power Ventures, respectively. Meanwhile, in the case of Avniya Properties, it will include 9 million tonne of cement capacity of the original Dalmia Cement (Bharat) and focused on the South.

In addition, the 45.4% stake held by Dalmia Cement (Bharat) in the eastern region-focused OCL India, with a cement capacity of 5.3 mt, would be demerged and transferred to Dalmia Bharat Enterprises and its wholly-owned subsidiaries. Shareholders of Dalmia Cement (Bharat) would receive one share in Dalmia Bharat Enterprises for every share held, once all regulatory approvals are received.

However, as per the restructuring announced, it would make Dalmia Bharat Enterprises a holding company for the cement and power business, and given the cross-holding between various entities, it may make it difficult for investors to get full picture of DBE and its various operating subsidiaries. In India, holding companies typically trade at a 50-70% discount to the market value of their investment and there is nothing to believe it may not happen in the case of Dalmia Bharat Enterprises.

Currently, Dalmia Cement is trading at a P/E of 11 times and its market cap is around Rs 1,980 crore. There is strong chance that DBE's market cap may be less than that of Dalmia Cement (Bharat), given the holding company discount. A case in point is the huge gap in the market cap of Binani Cement and its promoter and holding company Binani Industries. For Dalmia Cement (Bharat), in the first nine months of FY10, the cement division accounted for nearly 67% of net segment revenue of Rs 1,629.3 crore, while sugar division contributed 24.8%. Also, post-restructuring on a consolidated basis for the first nine months of the current financial year, net debt in Dalmia Bharat Enterprises would be Rs 1,061 crore. While for Dalmia Cement (Bharat), it would be Rs 486 crore.

And given the different operating dynamics and fund requirements of businesses like sugar and cement, this move appears logical to better-focused entities. Also, a more-focused entity would find it easier to raise funds and this is crucial at a time when an additional greenfield cement capacities of 10 mt at a cost of nearly Rs 4,500 crore are planned and to be implemented in phases in the next few years.

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